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WEHRMANN, L. *Die Verwaltung der Eisenbahnen. Die Verwaltungstätigkeit der preussischen Staatsbahn in der Gesetzgebung, der Aufsicht und dem Betriebe unter Vergleich mit anderen Eisenbahnen.* (Berlin: Springer. 1913. Pp. viii, 346. 7 m.)

——— *Record of American and foreign shipping.* (New York: American Bureau of Shipping. 1913. Pp. 1180, diagrs.)

Trade, Commerce, and Commercial Crises

NEW BOOKS

ARNDT, P. *Deutschlands Stellung in der Weltwirtschaft.* Natur und Geisteswelt, 179. (Leipzig: B. G. Teubner. 1912. 1 m.)

VAN DER BORCHT, R. *Das Verkehrswesen.* Second edition. (Leipzig: Hirschfeld. 1913. 16 m.)

Practically a new work, the first edition having appeared in 1894.

CAHEN, G. and LAURENT, E. *Rapports sur les indices des crises économiques et sur les mesures financières propres à atténuer les chômages résultant de ces crises.* (Paris: Berger-Levrault. 1913. Pp. 78. 1.50 fr.)

A report presented by the Commission des Crises Economiques covering the years 1908-1911.

DISBROW, C. W. *Periodic financial panics; the cause and the remedy.* (St. Louis Finance Pub Co. 1913. Pp. 79. \$1.50.)

MATHEWSON, E. H. *Tobacco marketing in the United States.* Bulletin 268. (Washington: Bureau of Plant Industry. 1913. Pp. 67. 10c.)

MERRITT, E. *International trade in farm and forest products, 1901-1910.* Bulletin 103. (Washington: Dept. Agriculture, Bureau of Statistics. 1913. Pp. 57.)

PLUMBE, G. E. *Chicago; the great industrial and commercial center of the Mississippi valley.* (Chicago: Civic-Industrial Committee of the Chicago Association of Commerce. 1912. Pp. 144, illus.)

SEGRE, A. *Manuale di storia del commercio.* Vol. I. *Dalle origini alla rivoluzione Francese.* (Torino: S. Lattes & C. 1913. Pp. 461.)

SIGERUS, A. *Handelsbetriebsstatistik mit besonderer Berücksichtigung der Warenhandelsbetriebe.* (Leipzig: B. G. Teubner. 1913. Pp. iv, 82. 3.60 m.)

Accounting, Business Methods, Investments, and the Exchanges

Valuation of Public Service Corporations: Legal and Economic Phases of Valuation for Rate Making and Public Purchase.

By ROBERT H. WHITTEN. (New York: The Banks Law Publishing Company. 1912. Pp. 800. \$5.50.)

Dr. Whitten's extended experience and study has produced

a book which cannot be passed over by any one who is endeavoring to keep abreast of the best thought in regard to the valuation of the property of public service corporations. This is true whether the subject is considered from a legal view of the "fair value" referred to by the courts, or from the analogous and related viewpoint of abstract ethics.

There are thirty-two chapters, largely consisting of analyses of decisions in leading cases decided by courts or commissions. The numerous men who have interested themselves in this country in the important effort to bring about fair dealing as between public service companies and the public, one with the other, and who, therefore, have given attention to the valuation of the properties of the companies as a part of that main problem, will recognize in each chapter heading the statement of an element around which controversy has centered and in regard to which the conclusions of right-minded men of honest purpose are at difference with each other. Indeed, the treatment of the several subdivisions of the subject in the book itself emphasizes some of the divergences of opinion which exist. For instance, turning to chapter 2, headed Fair Value for Rate Purposes, and divided into twenty sections dealing with various decisions of courts and commissions in respect to fair value, we find an entry of Justice Brewer's opinion in the Union Pacific Railway case in which he held that there is no hard and fast rule of determining fair value: and this is followed by references to the San Diego Land case and other cases where it was held that present value, not the cost, is the true basis of value for rate making; the Kansas City Stock Yards case and the Consolidated Gas case where it was held that appreciation of property should be considered; the Cedar Rapids Gas case and the Oklahoma Telephone case in which reproduction cost less depreciation is emphasized; and the Cumberland Telephone case in which it is held that the construction cost is not controlling. The much quoted Supreme Court case of *Smythe v. Ames* finds a place in this chapter.

Similar variety of views is set forth in parts of the discussion of market value in the next chapter; and likewise through other important chapters one finds quotations from case after case decided by courts or commissions, with conclusions showing much variety of sentiment and in some instances of contradictory nature. This situation exists although all of the courts and commissions are confessedly endeavoring to reach

a correct decision in law and a fair decision in equity as between the parties in respect to valuations and reasonable returns.

Not the least valuable part of Dr. Whitten's book lies in his own summaries at the ends of the various chapters, although many fair-minded people may dissent from the conclusions set up by the author. For instance, in the chapter relating to property donated to public service corporations (ch. 8), Dr. Whitten makes the following statement:

Now unless there is some good reason to the contrary, a rule in regard to donations should work both ways. That is, the rule adopted should be applicable alike both to donations by the company and to donations by the public. If the reconstruction of a street or the building of expensive street approaches is a necessary part of the expense of constructing the railroad, it is only fair and just that the company should be allowed to earn a fair return on such investment regardless of the fact that the title to such property is not vested in the company but in the city. Similarly, if the government has given this same company the land for its right of way, the actual property in which the company has invested its capital and not that part to which it has title but which has been donated by the government should be considered in determining reasonable rates.

I presume Dr. Whitten will admit the very large difficulty to be met in trying (as he proposes) to segregate these different kinds of property, namely, that which has been paid for by the investors but the title to which is not within the company, and that which has not been paid for by the investors but the title to which is within the company. Until improved accounting methods have been in use for many more years, such separations will commonly be impracticable except as a matter of estimate, and the exact application of any such rule as Dr. Whitten here lays down cannot be relied upon, even if the ideals of equity set forth are accepted.

The same paragraph of Dr. Whitten's statement continues as follows:

The determination of a reasonable rate is an equitable process and equity will demand that certain property to which the company has no title should be included and certain other property to which the company has title should be excluded. It is the actual investment or sacrifice on the part of the company that is entitled to consideration regardless of mere title or possession. This at least should be the general rule. There may be cases where donations made by the public cannot be separated from the other property or where they were made so long ago that rights or equities have been developed in

ignorance of their existence or significance and which it would not now be public policy to seriously disturb.

Of course, one of the difficulties in viewing the thing as simply as Dr. Whitten would indicate that it may be viewed, lies in the fact that the donations are often made with the avowed purpose of encouraging the enterprise and therefore are in the nature of compensation to the promoters and early supporters of the project. I use the word "promoters" here in its legitimate sense of men of enterprise who conceive, organize, and bring to a consummation some project which is of ultimate value to the community. Not infrequently the immediate commercial results of such projects may be shrouded in doubt, but the public may be clamorous for the consummation and willing to pay some extra compensation in the way of encouragement or guarantee. Indeed, such perhaps may have been the situation in the Central Georgia Railway case which Dr. Whitten frankly quotes as a footnote to his own statement although the finding of the master therein was adverse to his view.

One of the most interesting series of chapters in the book comprises chs. 21-25, occupying 132 pages and relating to "going concern" values. Dr. Whitten avoids the error of many writers who confuse good-will with going concern value, and he admits that there is a separate and real value to investors which lies in a going concern, due in his opinion, as I read his book, to the fact that the plant is connected with and working profitably in relation to the business for which it was designed—that is, because the plant is connected with its business and is successfully operating. Dr. Whitten says (p. 559):

Unquestionably a plant having an established and paying business is worth more to an investor than a similar new plant that has as yet no business and whose future as a paying proposition is as yet uncertain.

The additional value of the going concern may be said by some to be of a sentimental nature, but whether sentimental or not, it is nevertheless real.

Dr. Whitten recognizes the going concern value as an element of fair value and admits its applicability to valuations for purchase. He denies its applicability for rate-making purposes, but seems to suggest that a higher rate of return should be allowed investors on account of going concern value of their property if this is not included within the valuation for the rate making.

Such a theory, however popular, leads to a logical blind alley since the same valuation for the purpose of purchase ought to apply whether the purchase is to be made by a private company or a public corporation such as a municipality, and if the purchase is made by a private company, why should not the purchaser have the same rate of return on his investment as the seller was enjoying? The rate of return is established in view, amongst other things, of the existing risks and the past compensation to the owners. The conditions of today are carried over into the hands of the new owners, including all the risks that now exist. Dr. Whitten's reply to this objection which may be raised against his expressed view, apparently is that the new owners should have the same total income to apply for the compensation of the investors as the selling company had, but since the purchasing company did not go through the inconveniences, risks, and annoyances of building up the going concern they do not need as high a rate of return on their capital. Such argument, however, seems specious, when it is remembered that the same argument may be directed to the state of individual stockholders who come into the company by purchase of stock from original holders, just as logically as it may be directed toward a complete change of shareholders all at once, and, if the author's considerations are carried to their logical limits, it is impossible to make the distinctions which are suggested. When worked out to the logical limits, it seems obvious that going concern value, if allowed at all, ought to be allowed in valuations for rate purposes as in valuations for purchase. There apparently can be no fair denial that a real value exists that may be denominated under the term "going value." The problem seems to lie in determining its magnitude in any particular case.

Many other interesting features of Dr. Whitten's book could be mentioned, but the space of a review does not afford opportunity. The foregoing illustrate some of the divergences of opinion which exist on certain of the important details of the great problem of the relations between the public and the public service corporations. Rules of more or less definite character may ultimately be worked out for the attainment of equity, but this is not advanced by accusing as dishonest the more judicial minded who are endeavoring to arrive at the facts in these difficult problems. The habit of calling names is too often the unfortunate habit of the advocates of both the public and the cor-

porations. From this fault Dr. Whitten's book is happily free, and, while expressing his own convictions strongly, he still recognizes the honesty of purpose of men of other views and sets forth their arguments with palpable fairness and toleration.

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Auditing: Theory and Practice. By ROBERT H. MONTGOMERY.
(New York: The Ronald Press Company. 1912. Pp. xxix, 673.)

For many years the standard handbook on auditing was Lawrence R. Dicksee's *Auditing*; this and Pixley's work of the same name constituted the major portion of the literature on this subject outside of the periodicals. The next step was the bringing out of *Dicksee's Auditing*, an American edition, by Robert H. Montgomery, the author of the book under review. He omitted many parts which applied particularly to British conditions and rewrote other parts to bring them into harmony with American experience and ideas; and this revision has served the accounting public fairly well for seven years. But the American idea of what constitutes the scope of an audit and American practice have been so different from that of our British cousins that there has been felt the need of a book on auditing written entirely from the American viewpoint. The author attempts such a book in the present volume.

There are thirty-five chapters. The first six dispose of such general preliminary subjects as the purpose of the book, the purposes and advantages of an audit, the auditor's qualifications and duties, the ethics of the profession, and "how to begin an audit." The body of the volume, twenty-three chapters, divides itself into three parts: namely, the general procedure in an audit; special points which pertain to the audit of various types of business; and special investigations for particular purposes. Six chapters on the accounts of holding companies, interest, the liabilities of auditors, the liabilities of directors, the corporation tax law, the partnership tax act, and certified public accountant laws and examinations bring the work to a close.

A noteworthy feature is the author's conception of the purposes and scope of an audit. If we consider the whole field of accounting we shall find that it is divisible into four parts:

(1) Constructive accounting, in which the accountant constructs a system of accounts for a particular business, defining